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SUBJECT: BOSNIA: SARAJEVO SELLS ELECTRICITY SURPLUS DESPITE  
DEFICIT IN MOSTAR

REF: SARAJEVO 1199

11. (U) Summary: Sarajevo-based electricity distributor Elektroprivreda BiH (EPBiH) announced their intention to sell close to 200 mln USD worth of surplus electricity to prospective utilities and electricity trading companies. Although profits from electricity surplus would be a boon for the Federation Government's budget, they would come at the expense of the Federation's other utility, Mostar-based Elektroprivreda (EPHZHB), which continues to run a deficit. According to Federation officials, the two companies are treated as separate enterprises and EPHZHB must compete with international bidders for purchase of electricity from EPBiH. Because the Bosniak-run, Sarajevo-based, EPBiH has been favored by Federation government officials who plan to expand its healthy electricity generating resources, the disparity between the two companies, and the parallel tension between the Bosnian Croat and Bosniak leaders, will continue. The Bosniak leaders have held off on a decision for a Federation energy strategy to avoid making it an election issue. End summary.

12. (U) Elektroprivreda BiH (EPBiH), one of the two power utilities owned by the Federation Government, announced plans to sell 1.6 billion kilowatt-hours of surplus electricity next year, which could be worth 196 million USD. 2009 will be the first year in over five years that EPBiH will have surplus electricity to sell themselves, as an obligation to compensate Elektroprivreda Croatia for investments made to help build the Kakanj thermal power plant expires this year. In return for the pre-war investment, Elektroprivreda Croatia was granted a five-year term in which they sold EPBiH surplus electricity.

13. (SBU) According to EPBiH General Manager Amer Jerlagic around 20 neighboring utilities and power trading firms are interested in bidding to purchase the surplus electricity. According to the media, only Bosnia and Bulgaria are electricity exporters in southeastern Europe. The Federation has been working on a plan to build more thermal and hydropower plants to increase electricity generation, however, domestic political squabbles have resulted in a continued stalemate on sector development (reftel).

WHAT ABOUT BOSNIA,S INTERNAL ENERGY NEEDS?  
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14. (SBU) We asked EPBiH Executive Director Emir Aganovic about the electricity needs of Mostar-based Elektroprivreda HZHB, a company that is also owned by the Federation Government and is continually short of electricity, and how that fits in with export of EPBiH,s surplus. (Note: In

2007, EPHZHB's electricity shortfall was 1.3 billion kilowatt-hours, in 2008, officials predict the shortfall will be 1.26 billion kilowatt-hours. End note.) According to Aganovic, EPHZHB must compete with any other international bidder or power trading company for the surplus electricity. The only benefit to EPHZHB is that the sale price would be significantly lower, since transit of electricity to Mostar is obviously much cheaper than transit to Slovenia, Italy or Greece. Privatization of Aluminij Mostar, one of the country's largest exporters, is being held up largely over the dispute of guaranteed access to below-market-rate electricity from EPHZHB. The factory takes more than two-thirds of EPHZHB's entire load, leaving ordinary ratepayers with the possibility of having to cross-subsidize the cost of buying expensive alternate-sourced electricity.

#### FUTURE ENERGY NEEDS STILL NOT ADDRESSED

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15. (U) After paying off debts to investors and other arrears, EPBiH,s reported net profit for the first half of 2008 amounted to 15 million USD. Jerlagic told the press that the company plans to re-invest some of these profits in renewable energy resources. According to him, wind power is the great, untapped resource for Bosnia with a potential of 1,000 to 1,200 megawatts, annually. He discussed plans in the media of investing in a 30-MW windpark in southern Herzegovina as well as several small hydro-plants.

16. (U) Jerlagic warned that Bosnia and Herzegovina, as a whole, must develop an energy sector development strategy or

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there will be a country-wide deficit of energy within a decade. Federation Minister of Energy Vahid Heco went even further in a June interview, threatening that the Government must begin developing new hydro and thermal power plants otherwise they will be have an electricity deficit by 2012.

#### COMMENT

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17. (SBU) Despite owning both Sarajevo-based EPBiH and Mostar-based (Bosnian Croat-controlled) EPHZHB, the Federation Government treats these two companies as separate enterprises, a strategy that does not benefit electricity consumers. With the government focused mainly on bolstering the capacity of EPBiH with new power generating resources, EPHZHB will continue to be left in the dark, creating further tension between Bosniak and Bosnian Croat interests. Although a situation where energy resources are divided unequally between Bosnian Croats and Bosniaks will inevitably create tensions in the Federation, the worst case scenario is that the internal squabbles among political party officials will result in continued stagnation of the energy sector, dashing any hopes of creating a long-term electricity export strategy. We can also expect Croat political parties to add this dispute to their list of grievances against the Bosniaks that they use to justify their demands for a third entity.

ENGLISH